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Dr. Debra Jackson, Superintendent
Members of the Board of Education
Highland Falls-Fort Montgomery Central School District
P.O. Box 287
21 Morgan Road
Highland Falls, NY 10928

Report Number: 2008M-91-F

Dear Dr. Jackson and Members of the Board of Education:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage District officials to reduce costs, improve service delivery and to account for and protect their District's assets. In accordance with these objectives, we conducted an audit of the Highland Falls-Fort Montgomery Central School District (District) to assess the financial operations of the District. As a result of our audit, we issued a report, dated August 2008, identifying certain conditions and opportunities for District management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Highland Falls-Fort Montgomery Central School District in December 2009 to review the District's progress in implementing our recommendations. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the District has made significant progress in implementing our recommendations. Of the 18 audit recommendations, 14 recommendations were implemented, one recommendation was partially implemented, one recommendation was not implemented and two recommendations were no longer applicable.

Recommendation 1 – Fingerprint Clearances

District officials should comply with Education Law requiring a fingerprint-driven background check of all prospective employees and contractors.

Status of Corrective Action: Partially Implemented

Observations/Findings: The District has implemented policies and procedures to ensure that all employees and contractors who have contact with students undergo criminal background checks and fingerprinting as prescribed by Education Law. We reviewed 20 of the 275 current District employees' personnel files to determine whether they were fingerprinted. We also reviewed vendor files for the four consultants who had regular

contact with students. District officials had performed fingerprint-supported background criminal history checks or had obtained valid clearances for the 20 employees selected. However, District officials did not obtain fingerprint clearance for one of the four consultants selected. To help ensure the safety of District students, we encourage District officials to obtain criminal background checks on all consultants who have direct contact with students, as required by Education Law.

Recommendation 2 – Employment Eligibility Verification (I-9) Form

District officials should develop procedures to ensure that the personnel clerk obtains an Eligibility Verification (I-9) form for all new employees.

Status of Corrective Action: Fully Implemented

Observations/Findings: District officials developed a personnel checklist to ensure that the personnel clerk obtains an I-9 form for all new employees. The personnel clerk completes the checklist and includes it in each employee’s personnel file. We reviewed 20 employees’ personnel files, including those of 10 new hires, and found the I-9 form in each employee’s personnel file.

Recommendation 3 – Personnel Files

The District Clerk should ensure that complete personnel files are maintained for all District employees.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed the personnel checklist that District officials provided to the District Clerk and found that it requires employees to obtain all necessary information for maintaining complete personnel files. The District Clerk includes the completed checklist in each employee’s file to ensure that all necessary information has been received. In addition, to ensure that employee contact information is up-to-date, the District requested that each employee complete an “Official Directory Information Request” form. The employee information includes home address, phone number, e-mail address, assigned work location and spouse’s name. The District requires employees to complete this form at the beginning of each school year or when the form is updated. We reviewed 20 current District employees’ personnel files and found that all 20 files were complete.

Recommendation 4 – Board Authorization

The Board should properly authorize and document all employment approvals.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Business Official stated that the District has implemented new employment procedures. The Board approves all new hires prior to employment and documents the approvals in the Board minutes. We selected 10 out of 37 employees who were hired in 2009 and verified that the Board authorized all 10 new hires prior to their employment and documented its authorization in the Board minutes.

Recommendation 5 – Segregation of Duties - Payroll Processing

District officials should establish policies and procedures for payroll processing describing employee responsibilities and assigning duties so that incompatible functions are segregated. If segregation of duties is not possible, District officials should establish mitigating controls such as enhanced monitoring of payroll transactions.

Status of Corrective Action: Fully Implemented

Observations/Findings: District officials have established written payroll procedures outlining employee responsibilities and assigned duties so that incompatible functions are segregated. We reviewed the key duties in payroll processing and determined that duties have been adequately segregated. Specifically, authorization (adding employees to payroll) is now the responsibility of the District Clerk, recordkeeping (entering transactions that affect gross pay amount) is the responsibility of the payroll clerk, and asset custody (distributing signed checks) has been assigned to a custodian from each building.

Recommendation 6 – Final Payrolls Review

The payroll certifying agent should review final payrolls to verify that they are based on actual hours or days worked, or authorized leave time; verify that the hourly rates or annual salaries used were authorized; compare net payroll checks to the payroll journal and review the payrolls for reasonableness.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Board designated the District Clerk to certify the District's payroll. She verifies that payments made to substitute teachers are based on actual hours or days worked. She reviews all custodians' overtime by tracing the hours of overtime paid to the time sheets. She randomly selects one employee from each school to verify that the salary paid matches the salary authorized. In addition, she reviews all payments made to new hires to ensure that payments are made in accordance with the Board's authorized salaries. Finally, when an employee leaves the District, she ensures that the employee is not on the payroll. We reviewed the payroll registers dated November 20, 2009, December 04, 2009 and December 18, 2009, and determined that the District Clerk reviewed and certified all three payroll registers.

Recommendation 7 – Payroll Exception Report

District officials should review payroll exception reports prior to the certification of the payroll.

Status of Corrective Action: Fully Implemented

Observations/Findings: The District Clerk reviews the payroll exception report and investigates any variances prior to certifying the payroll. We reviewed the payroll exception report for the pay period ending December 18, 2009 and found that the District Clerk had reviewed the report and explained the minor variances (principally due to

overtime, chaperone pay and substitute teacher pay) by reviewing attendance records, time sheets and Board-approved salary increases.

Recommendation 8 – Payroll Payout Audit

District officials should periodically perform a payroll payout to ensure that payment is made to only District employees.

Status of Corrective Action: Fully Implemented

Observations/Findings: Once a year, the Business Official selects two employees (excluding the payroll clerk) to go to the four school buildings to perform a payroll payout audit. Before receiving their paychecks or pay stubs, employees must provide identification and sign for them. The Business Official stated that, due to limited staff, District officials performed the payroll audit in two different pay periods (May 8, 2009 and June 5, 2009). However, in 2010 they will try to complete the audit in one day. We reviewed both payroll payout audits for 2009 to verify that District officials ensured that all employees who received paychecks were actual District employees. We found a few minor exceptions that we discussed with District officials.

Recommendation 9 – Compensatory Time

The Board should adopt policies dealing with compensatory time that address the amount of compensatory time employees are allowed to accrue, when it can be used, who can authorize it and how it will be monitored.

Status of Corrective Action: Not Applicable

Observations/Findings: We reviewed the new contracts the District has with its bargaining units and found that the District no longer provides compensatory time to employees. In November 2009, the District issued a letter to employees who had accrued compensatory time informing them to use their balances by the end of the current school year.

Recommendation 10 – Segregation of Duties - Purchasing Agent

District officials should properly segregate the purchasing agent's duties. If proper segregation is not possible, officials should implement compensating controls, such as enhanced review of the purchasing agent's work.

Status of Corrective Action: Fully Implemented

Observations/Findings: District officials segregated the purchasing agent's duties. We reviewed the purchasing agent's user access profile in the accounting software and found that his access is limited to his specific job duties of reviewing and approving purchase orders. The deputy purchasing agent is now responsible for creating a purchase order, and the accounts payable clerk is now responsible for processing cash disbursements and printing checks.

Recommendation 11– Professional Services

District officials should procure professional services in accordance with General Municipal Law and the Board’s adopted policy.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Business Official stated that the District procures professional services through a Request for Proposal (RFP) process. We selected three vendors who provided professional services (auditing, financial advisor, and architectural services) to determine if the District solicited RFPs prior to hiring the vendors and found that the District solicited RFPs for the auditors and financial advisor. The current architect is the same architect that was discussed in our previous audit report. District officials have prepared an RFP for architectural services for the District’s new capital projects and were accepting proposals until February 10, 2010.

Recommendation 12 – Competitive Bids for Purchases

District officials should obtain competitive bids for purchases over \$10,000 as required by General Municipal Law and District policy.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Business Official stated that the District obtains competitive bids for purchases over \$10,000, as required by General Municipal Law (GML) and District policy. We selected a sample of seven vendors who received payments in excess of \$10,000 during the 2008-09 and 2009-10 school years. The purchasing agent used competitive bidding or appropriate State contracts when making these purchases, in accordance with GML and District policy.

Recommendation 13 – User Access Rights

District officials should limit the ability of system users to access software and data based on the relevance of their job duties.

Status of Corrective Action: Fully Implemented

Observations/Findings: District officials stated that they have reviewed employees’ access rights to limit system users’ ability to access software and data based on their job duties. We reviewed the access rights for the Business Official, Accounts Receivable Clerk, Payroll Clerk, Accounts Payable Clerk, Technology Coordinator, Superintendent of Buildings and Grounds, and the District Clerk and determined that they have access rights only to data and technology systems needed to perform their job duties.

Recommendation 14 – Change Notification

District officials should institute a procedure to deactivate user accounts as soon as employees leave District service or change user accounts as soon as employees are assigned new responsibilities.

Status of Corrective Action: Fully Implemented

Observations/Findings: The District developed and implemented an access change form which must be approved by an immediate supervisor and the technology department head before changes are made. The District uses this form for all changes including, but not limited to, network user setup, e-mail changes, additional network access, financial system access rights or internet access changes. When an employee leaves the District, his/her user account is deactivated. We selected five employees who recently left the District and found that all user accounts were deactivated.

Recommendation 15 – Disaster Recovery

District officials should revise the contract with the Mid-Hudson Regional Information Center (MHRIC) to include disaster recovery or should consider developing their own disaster recovery plan.

Status of Corrective Action: Fully Implemented

Observations/Findings: The District has developed its own comprehensive disaster recovery plan, which includes the following:

1. Back up procedures
2. Secondary location in case of disaster
3. Hardware equipment list
4. Software list
5. Identification of critical applications
6. Critical data retrieval list
7. Disaster recovery plan
8. Call list: internal and external

In addition, the District contracts with Orange Ulster BOCES through a technology cooperative service for back-up, filtering, firewall protection and disaster recovery. Although the District has not used a back-up to perform a system-wide data recovery, it has successfully used a back-up to recover some of its data.

Recommendation 16– Risk Management

District officials should adopt policies and procedures for analyzing the risk associated with contracting for certain IT functions and for addressing those risks.

Status of Corrective Action: Not Implemented

Observations/Findings: The District has not reviewed the risks associated with hiring contractors for its information technology (IT) service. The acting Director of Technology and the Technology Coordinator were unaware of any formalized process for risk management. Subsequent to our initial audit, the District contracted with the Mid Hudson Regional Information Center (MHRIC) to audit and recommend areas of improvement within the District's IT. To ensure that the District's system and data are adequately safeguarded, we encourage District officials to analyze and address the risks associated with hiring contractors for the District's IT service.

Recommendation 17– Data Classification

The Director of Technology should institute a process where data is classified according to risk and is documented.

Status of Corrective Action: Fully Implemented

Observations/Findings: The District has classified its data according to risk level. The classification process includes the description of the software application, the level of risk associated with the data, the District’s disaster recovery process for these applications, and how permissions are to be granted to different functions within the application. In addition, District officials have implemented procedures detailing how individuals’ IT access are added, deleted or changed.

Recommendation 18 – Remote Access

District officials should adopt policies and procedures that address remote access to the District’s computer system.

Status of Corrective Action: Not Applicable

Observations/Findings: The District no longer has remote access to its computer system; instead, the District uses virtual private network (VPN) technology. With the exception of the Technology Coordinator, no other District employees can use the VPN.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage you to continue with your efforts to implement our recommended improvements in your fiscal management.

I trust that our follow-up review was of assistance to you. If you have any further questions, please contact Christopher Ellis, Chief Examiner of our Newburgh Regional Office, at (845) 567-0858.

Sincerely,



Steven J. Hancox
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and School Accountability